

# ***Hudson Bergen Light Rail System***

**A contracting model for the 21st century**

Philadelphia, PA - September 18, 2008

# ***“New Jersey – 1994”***

## ■ **Program Status**

- In development for more than 10 years
- Environmental process not complete
- More than \$60M spent, another \$60M programmed
- Completion date unknown
- Final cost unknown
- No credibility

# Challenges

- Organizational
- Regulatory and Environmental
- Funding
- Credibility

# “Goals”

- Award project in 2 years
- Operational in 5 years
- Get development costs under control
- Establish responsible financial plan
- Streamline regulatory process and funding approvals

# *Office of New Rail Construction*

- **Special responsibilities and authority**
  - 4 high priority public transportation projects
- **Streamlined reporting**
  - Special committee of the board
  - Assembly light rail panel
- **Integrated project team**
  - Planning
  - Engineering
  - Real Estate
  - Legal
  - Community Outreach
  - Political Outreach

# ***Early Action Items***

- Work with local leaders to finalize alignment, scope, and municipal agreements
- Implemented comprehensive outreach program for community and waterfront developers
- Negotiated “project agreement” with FTA
- Started industry outreach to solicit input on concepts
- Establish financial plan to bridge cash shortfalls

# ***New Contract Model***

- **Public Private Partnership**
  - Private sector innovation
  - Single point of responsibility
  - Share cost, schedule & performance risk
  - Small internal management staff
  - Quality Assurance built in

# ***New Business Relationship***

## ■ Partnership

- Relationship no longer a zero sum game
- Develop contracts that create win/win situations
- Allocate risk to the party best able to control it
- Share information openly
- Engage private partners early on to help develop contract documents that work





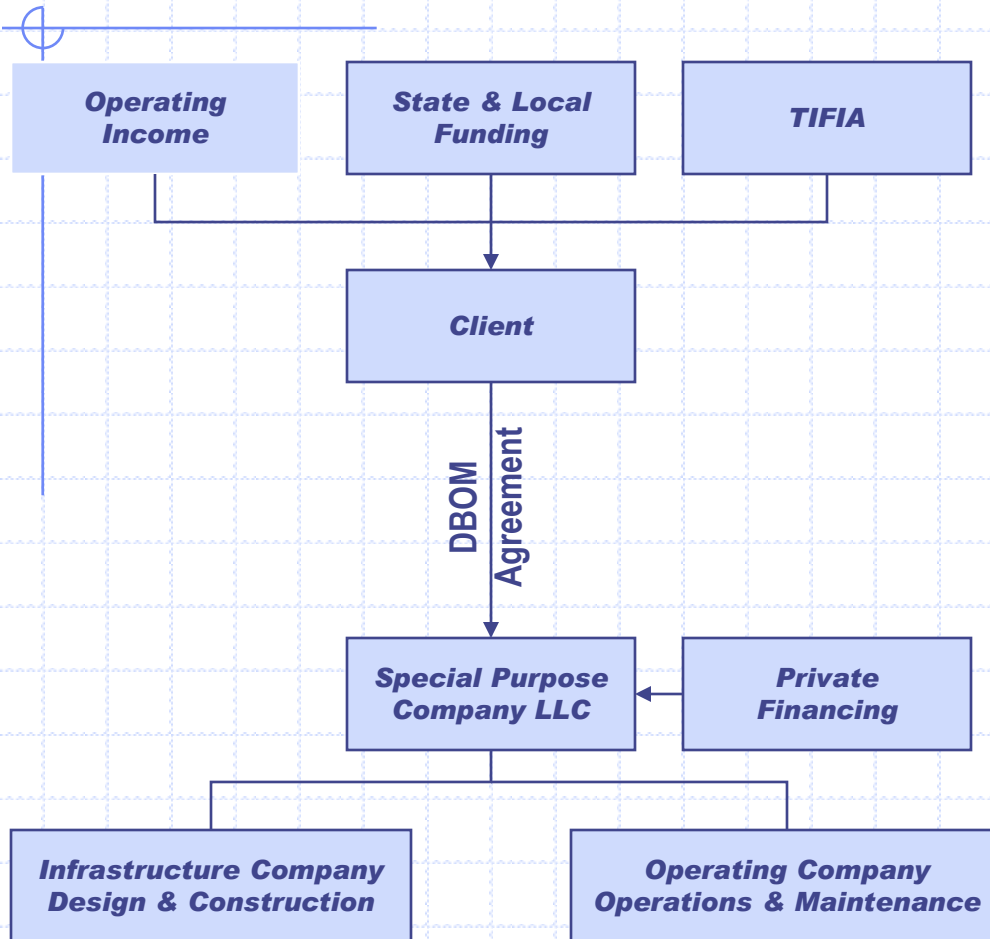
# ***Critical Issues - Procurement***

- Establish communications with all interested parties
  - Contract model
  - Procurement process
  - Contract Packaging
  - Construction phasing
  - Risk allocation
- Issue draft RFQ's and RFP's
- Involve industry in evaluation and selection criteria
- Encourage private sector innovation

# ***Critical Issues - Contract***

- Bonding
- Insurance
- Risk allocation
- Creative payment provisions
  - Payment for performance
  - Liquidated damages
  - Retainage

# ***Public / Private / Partnership Design – Build – Operate – Maintain Model***

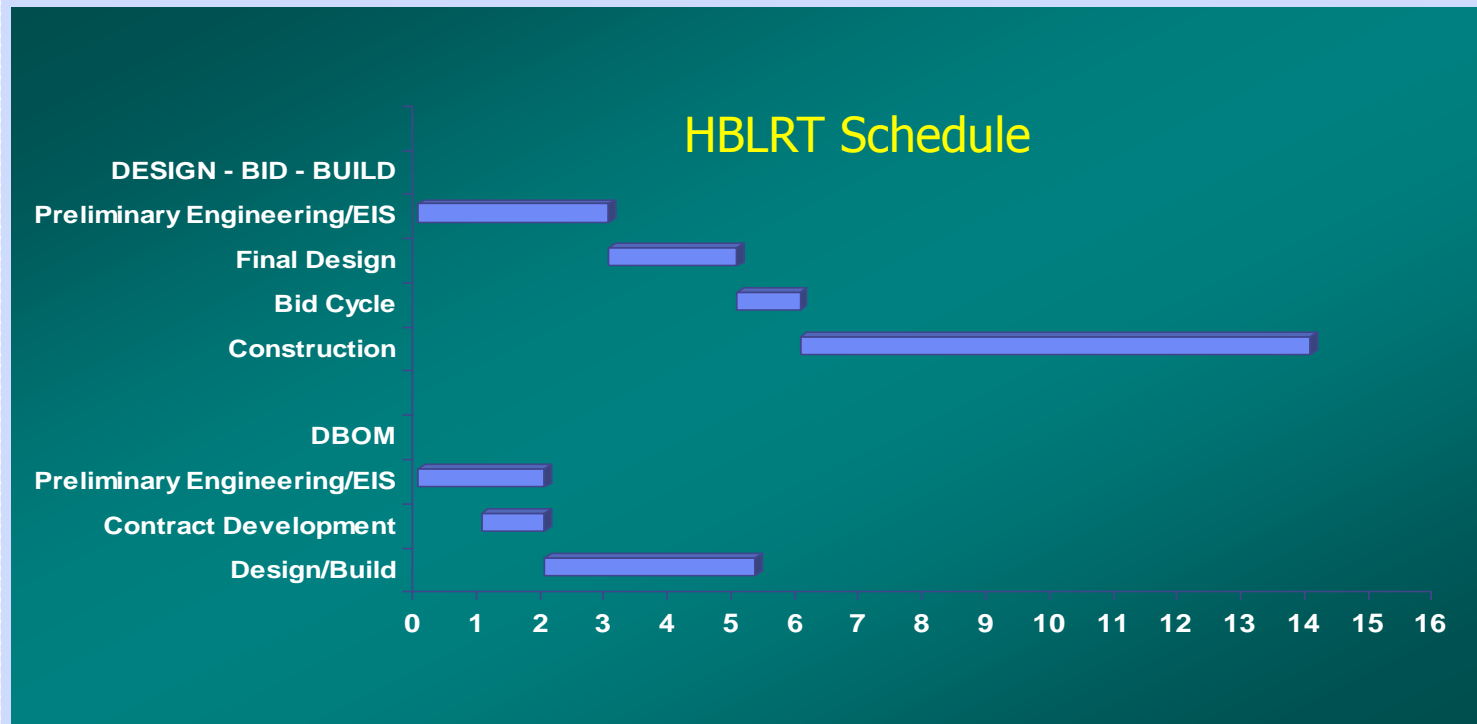


- Total project costs identified early
- Public sector holds income risk
- Public sector holds funding risk
- Private sector holds performance risk
- Private sector holds cost risk



***Hudson-Bergen Light Rail  
New Jersey***

# Hudson Bergen Schedule Comparison



# Hudson Bergen Cost Comparison

|  |                 |
|--|-----------------|
| ◆ Design & Construction:   | \$476M          |
| ◆ Vehicles:  | \$93M           |
| ◆ <b>Sub Total:</b>  | <b>\$569M *</b> |
| ◆ Newark City Subway   | \$100M          |
| ◆ 15 years of O&M  | \$434M          |
| ◆ Total:   | \$1.1B          |
| ◆ <i>* Original Design &amp; Construction estimate over \$700M</i> |                 |

# ***Project Achievements***

- First DBOM contract in North America
- Project fast tracked from “alternatives analysis” to contract award in 2 years
- Construction completed and revenue operations underway in 40 months
- Environmental approval, full funding grant agreement and project award in same month
- Vendors participated in development of procurement, award criteria, contract terms and conditions, performance requirements, technical standards, and cost drivers.

# ***Project Achievements***

- Private sector (contractor) bridge financing
- Unique contract provisions
- O&M costs guaranteed for a specific level of service
- Performance incentives built into O&M requirements
- During O&M phase, the owner is protected against windfall profits ... the private operator is protected from catastrophic loss

# Keys to Success

- Private sector financing
  - Teams “monetized” commitment to pay on the part of New Jersey (the banks were willing to take appropriation risk) into a cost effective line of credit. Over time the cost difference from traditional public financing was a big number
  - NJT ultimately decided to do convert to public financing to receive tax benefits
- Proposal Requirements
  - Minimize the number of mandatory specifications part way into the procurement process



# ***Lessons Learned***

- Involve private industry in project development
- Develop a project focus with everyone on the same team
- Address areas of shared risk
- Build a strong relationship with your partner
- Address changes early and equitably
- Limit DBOM technical specifications ... focus on alignments and performance requirements
- Create clear lines of authority & responsibility in both the contractor and agency organizations
- Limit the GEC role during project implementation to verification of mandatory performance requirements